

## Message Text

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ACTION AF-18

INFO OCT-01 ISO-00 PM-07 NSC-07 SP-03 SS-20 RSC-01 CIAE-00

DODE-00 INR-10 NSAE-00 PA-04 USIA-15 PRS-01 AID-20

COME-00 EB-11 FRB-02 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 DRC-01 /150 W

----- 028693

R 141355Z JUN 74

FM AMEMBASSY NAIROBI

TO SECSTATE WASHDC 7543

INFO AMEMBASSY DAR ES SALAAM

UNCLAS SECTION 1 OF 2 NAIROBI 4929/1

E.O. 11652: N/A

TAGS: EFIN. KE

SUBJECT: KENYA BUDGET FY 75

1. SUMMARY: THE KENYA BUDGET PRESENTED JUNE 12 WILL DO LITTLE TO DAMPEN INFLATION OR PREVENT CONTINUED LOSS OF FOREIGN EXCHANGE RESERVES BUT WILL CONTRIBUTE TO POSITIVE ECONOMIC GROWTH DURING 1974. FOR FY 75 (JULY 1, 1974 TO JUNE 30, 1975) ESTIMATED REVENUE WILL BE THE LOCAL EQUIVALENT OF \$731.1 MILLION AND ESTIMATED EXPENDITURES WILL BE \$774.7 MILLION. NEW TAX MEASURES WILL CONTRIBUTE \$32.0 MILLION TO REVENUE. EXTERNAL FINANCING FOR DEVELOPMENT ACCOUNT PROJECTED TO INCREASE FROM \$60.2 MILLION RECEIVED IN FY 74 TO \$82.5 IN FY 75. PROJECTED BUDGET DEFICIT OF \$43.6 MILLION WILL BE FINANCED BY LOCAL BORROWING. END SUMMARY

2. COMPARISON OF FY 74 AND FY 75 KENYAN BUDGETS:

(MILLIONS OF DOLLARS)

	FY 74	FY 75	PERCENT CHANGE
RECURRENT ACCOUNT			

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REVENUE	538.74	592.67	10.0
EXPENDITURE	472.47	527.43	11.0
SURPLUS	66.27	65.24	-1.6

## DEVELOPMENT ACCOUNT

REVENUE	120.82	138.40	14.6
EXPENDITURE	185.41	247.29	33.4
DEFICIT	64.59	108.80	68.4

## TOTAL BUDGET

RECURRENT SURPLUS	66.27	65.24
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DEVELOPMENT DEFICIT	64.59	108.80
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BALANCE	PLUS1.68	-43.62
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3. FY 74 FIGURES ABOVE ARE APPROPRIATED EXPENDITURES: FY 75 FIGURES ARE BUDGET REQUEST. HIGHTER REVENUE THAN EXPECTED IN FY74, DUE PRIMARILY TO HIGHER TARIFF COLLECTIONS DUE TO INFLATED PRICES OF IMPORTS, PRODUCED A MODEST BUDGET SURPLUS RATHER THAN THE \$57.5 MILLION DEFICIT PROJECTED A YEAR AGO.

4. MAJOR CHANGES IN FY 74 REQUEST FROM FY 73 APPROPRIATIONS IN DEVELOPMENT ACCOUNT WERE ALL INCREASES (IN MILLIONS OF DOLLARS): AGRICULTURE 25.8 HEALTH 7.2 POWER AND COMMUNICATIONS 5.7 TOURISM AND WILD-LIFE 2.9 , AND FINANCE AND PLANNING 2.8 MAJOR CHANGES IN THE RECURRENT ACCOUNT WERE ALL INCREASES (IN MILLIONS OF DOLLARS): EDUCATION 26.8, LOCAL GOVERNMENT 6.2, WORKS 4.3, DEFENSE 3.5, AND HEALTH 3.0.

5. MAJOR TAX CHANGES IN THE BUDGET MESSAGE: (A) SALES TAX: (1) MANUFACTURERS OF GOODS EXEMPT FROM SALES TAX UNCLASSIFIED

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WILL BE ABLE TO REGISTER AS A "MANUFACTURER" UNDER THE SALES TAX ACT AND THUS BE ENTITLED TO PURCHASE RAW MATERIALS FREE OF TAX. REVENUE LOSS \$1.7 MILLION.

2) LUBRICATING OILS AND GREASES WILL BE SUBJECT TO SALES TAX (10 PERCENT RATE) FOR FIRST TIME. REVENUE GAIN \$280,000. (3) SALES TAX INCREASED FROM 10 PERCENT RATE TO 15 PERCENT RATE ON LUXURY GOODS, INCLUDING

AUTOMOBILES. REVENUE GAIN \$2.2 MILLION. (4) SALES TAX ON BEER RAISED FROM 8.4 U.S. CENTS PER LITER TO 14.3 U.S. CENTS PER LITER . REVENUE GAIN \$2.0 MILLION. (5) SALES TAX ON GASOLINE RAISED FROM 2.9 U.S. CENTS PER LITER TO 5.7 U.S. CENTS PER LITER. REVENUE GAIN \$9.0 MILLION.

(B) EXCISE TAX: INCREASE RANGING FROM 2.8 U.S. CENTS TO 7.1 U.S. CENTS PER PACKAGE OF TWENTY CIGARETTES. REVENUE GAIN \$980,000.

(C) CUSTOMS TARIFF: SEVERAL MINOR CHANGES INCLUDING TARIFF CUTS ON LIMITED NUMBER OF FOOD ITEMS. REVENUE LOSS \$280,000.

(D) INCOME TAX: (1) GENERAL RATE OF CORPORATE INCOME TAX INCREASED FROM 40 PERCENT TO 45 PERCENT. (2) SPECIAL RATE OF CORPORATION TAX CHARGED ON INCOME OF RESIDENT INSURANCE COMPANIES ESTABLISHED AT 40 PERCENT ; NO CHANGE FROM PREVIOUS RATE. (3) SPECIAL CORPORATION TAX RELATING TO MINING OF SPECIFIED MINERALS RAISED FROM 22 1/2 PERCENT TO 27 1/2 PERCENT. (4) TAX ON INCOME OF BRANCHES OF FOREIGN COMPANIES INCREASED FROM 47 1/2 PERCENT TO 52 1/2 PERCENT. (5) TAX ON DIVIDENDS INCREASED FROM 12 1/2 PERCENT TO 15 PERCENT. ONLY PAYMENTS OF DIVIDENDS MADE OUTSIDE OF KENYA WILL BE EFFECTED AS PAYMENTS TO KENYA RESIDENTS RECEIVE TAX CREDIT AGAINST INCOME TAX. TOTAL REVENUE GAIN FROM ABOVE 5 MEASURES \$9.8 MILLION

6. TOTAL INCREASE DUE TO NEW TAX MEASURES EXPECTED TO BE \$32 MILLION.

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7. OTHER, NON TAX, MEASURES ANNOUNCED: (A) FOREIGN OWNED COMPANIES WILL BE STRICTLY LIMITED IN THEIR LOCAL BORROWING TO 20 PERCENT OF THE INVESTED FOREIGN EXCHANGE. (B) TO FACILITATE THE FOREIGN BORROWING OF FOREIGN AND KENYAN COMPANIES, THE 9 PERCENT LIMIT ON MARKET RATES WILL BE APPROVED BY THE GOK. (C) DOMESTIC EQUIVALENT OF PRIME INTEREST RATE INCREASED FROM 7 PERCENT TO 8 PERCENT AND MINIMUM INTEREST RATE ON TIME DEPOSITS INCREASED FROM 3 PERCENT TO 5 PERCENT. (D) GROWTH OF COMMERCIAL BANK CREDIT WILL BE LIMITED TO 12 PERCENT FOR NEXT 12 MONTHS. (E) TO PREVENT FOREIGN EXCHANGE LEAKAGE, TOURISTS WILL BE REQUIRED TO PAY ALL HOTEL AND TOUR COMPANY EXPENSES IN FOREIGN EXCHANGE. NECESSARY MACHINERY HAS NOT BEEN SET UP TO IMPLEMENT THIS LATER CHANGE.

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INFO OCT-01 ISO-00 PM-07 NSC-07 SP-03 SS-20 RSC-01 CIAE-00

DODE-00 INR-10 NSAE-00 PA-04 USIA-15 PRS-01 AID-20

COME-00 EB-11 FRB-02 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 DRC-01 /150 W

----- 028769

R 141355Z JUN 74

FM AMEMBASSY NAIROBI

TO SECSTATE WASHDC 7544

INFO AMEMBASSY DAR ES SALAAM

UNCLAS SECTION 2 OF 2 NAIROBI 4929/2

E.O. 11652: N/A

TAGS: EFIN. KE

SUBJECT: KENYA BUDGET FY 75

8. POST COMMENT: THE GOK RIGHTLY VIEWS INTERNATIONAL CONDITIONS OUTSIDE ITS CONTROL AS THE CAUSE OF KENYA'S INFLATION AND BALANCE OF PAYMENTS PROBLEMS. THE BUDGET IS THEREFORE AIMED MORE AND MAINTAINING REAL INCOMES THROUGH INCREASED PRODUCTION RATER THAN DECREASING DEMAND TROUGH FISCAL AND MONETARY CONTROLS. AS SUCH IT IS AN EXPANSIONARY BUDGET WHICH WILL ADD MARGINALLY THE INFLATIONARY TRENDS BUT WILL ASSIST IN PREVENTING AND RECESSION. FIRM OR INCREASING PRICES FOR ITS COMMODITY EXPORTS ARE THE KEYS TO AN IMPROVE-  
MENT IN THE BALANCE OF PAYMENTS PICUTRE (A \$140 MILLION OVERALL DEFICIT IS PROJECTED FOR 1974) NOT A DRASTIC CUT IN IMPORTS WHICH ARE PRINCIPALLY CAPITAL GOODS AND RAW MATERIALS NEEDED FOR LOCAL MANUFACTURING AND AGRICULTURE.

9. MOST DIPLOMATIC AND BUSINESS OBSERVERS IN NAIROBI THOUGHT THE BUDGET MUCH MILDER IN TERMS OF TAX INCREASES THAN EXPECTED. UPCOMING ELECTIONS EXPLAIN

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SOME OF THIS MILDNESS AND FEAR OF RECESSION  
EXPLAINS THE REMAINDER. AFTER ELECTIONS  
THIS FALL AND THE INSTALLATION OF A NEW PARLIAMENT,  
WE WOULD EXPECT THE GOK TO SUBMIT NEW TAX PROPOSALS  
AIMED PRIMARILY AT LIMITING DEMAND FOR IMPORTED CON-  
SUMER GOODS. END COMMENT

10. COPIES OF THE BUDGET HAVE BEEN POUCHED TO WASHINGTON  
UNDER THE CERP PUBLICATIONS PROGRAM. EMBASSY'S MORE  
DETAILED ANALYSIS OF THE BUDGET FOLLOWS BY  
AIRGRAM.  
MARSHALL

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** GOVERNMENT BUDGET, INFLATION, ECONOMIC DEVELOPMENT, EXPENDITURES, ANNUAL REPORTS, FOREIGN EXCHANGE HOLDINGS, DEVELOPMENT PROGRAMS, FINANCIAL DATA  
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**Copy:** SINGLE  
**Draft Date:** 14 JUN 1974  
**Decaption Date:** 01 JAN 1960  
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**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
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**Document Unique ID:** 00  
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**Errors:** N/A  
**Film Number:** D740155-0248  
**From:** NAIROBI  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1974/newtext/t19740644/aaaablvh.tel  
**Line Count:** 241  
**Locator:** TEXT ON-LINE, ON MICROFILM  
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**Subject:** KENYA BUDGET FY 75  
**TAGS:** EFIN, KE  
**To:** STATE  
**Type:** TE  
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